



# Initiative 31

## Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

# Fiscal Impact Statement

**Date:** July 2, 2021

**Fiscal Analyst:** Greg Sobetski (303-866-4105)

**LCS TITLE:** STATE INCOME TAX RATE REDUCTION

Fiscal Impact Summary		FY 2021-22	FY 2022-23	FY 2023-24
<b>Revenue</b>	General Fund	-	(\$572.1 million)	(\$397.9 million)
<b>Expenditures</b>	General Fund	-	\$6,613	\$1,751
<b>TABOR Refund</b>	General Fund	-	(\$572.1 million)	not estimated

*Disclaimer.* This initial fiscal impact statement has been prepared for an initiative approved for petition circulation by the Secretary of State. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available.

## Summary of Measure

The measure reduces the state income tax rate from 4.55 percent to 4.40 percent for tax year 2022 and all later tax years. This rate applies to the Colorado taxable income of individuals and corporations.

## State Revenue

The measure decreases state General Fund revenue by an estimated \$572.1 million in FY 2022-23 and \$397.9 million for FY 2023-24, with ongoing decreases in later years. The estimate for FY 2022-23 represents a full-year impact for tax year 2022 and a half-year impact for tax year 2023, because the measure takes effect after completion of FY 2021-22. The measure decreases income tax revenue, which is subject to TABOR.

## Taxpayer Impact

For tax year 2022, the measure reduces state income tax due by an average of \$95 per individual taxpayer, and by twice this amount for married couples filing tax jointly. The actual amount by which tax will decrease depends on one's taxable income.

The measure is also expected to reduce the state obligation for refunds to taxpayers under TABOR. For tax year 2023 and later years, reduced income tax due may be partially or totally offset by reduced refunds paid to the taxpayer under TABOR. The impacts on individual taxpayers will depend on the mechanism(s) used to refund the future TABOR surplus. Under current law, refund mechanisms depend on the amount of the state TABOR refund obligation.

## State Expenditures

The measure requires state expenditures for administration and affects the amount of the future state obligation for TABOR refunds.

**Administration.** Costs for computer programming, testing, and database management in the Department of Revenue are estimated at \$6,613 in FY 2022-23 and \$1,751 in FY 2023-24. These costs will be paid from the General Fund.

**TABOR refunds.** The measure is expected to decrease the state obligation for TABOR refunds to taxpayers by \$572.1 million for FY 2022-23. Because state revenue is expected to exceed the TABOR limit, the measure will not affect the amount of revenue available for the General Fund budget in FY 2022-23. Instead, it will reduce the amount of FY 2022-23 revenue required to be refunded to taxpayers in FY 2023-24.

Under current law, a portion of TABOR refunds are paid by temporarily reducing the state income tax rate to 4.50 percent. It is assumed that this refund mechanism would no longer apply if the measure becomes law, as the income tax rate would be below 4.50 percent in all years.

A forecast of state revenue subject to TABOR is not available beyond FY 2022-23. For years when state revenue subject to TABOR would fall short of the TABOR limit, the measure decreases the amount available for the General Fund budget.

## Effective Date

If approved by voters at the 2022 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

## State and Local Government Contacts

Legislative Council Staff Economics Section

Revenue

## Revisions from Fiscal Summary

The fiscal summary, dated April 19, 2021, was based on the March 2021 Legislative Council Staff economic and revenue forecast. This fiscal impact statement is based on the June 2021 Legislative Council Staff economic and revenue forecast.